Communications Received via Email

<u>**MESSAGE 1**</u>
To: KTRS Funding Work Group
From: Martin A. Matisoff, MSc
Date: August 04, 2015
Subject: Background Information

According to KTRS, Kentucky State University still hasn't corrected my service credit for 2013 (I was given credit for 47% of 2013). KTRS, Kentucky State University, and several government bureaucrats have me running in circles. As of August 4, 2015, KTRS officials told me that I still haven't received full credit for 2013, despite a personal communicate that claimed that "KTRS officials have verified that KSU eventually met its required contributions to the system," and "KSU officials have seemingly squared everything away to resolve their shortfall for 2013."

I've heard this rhetoric for two years now and NO ONE has done anything to address this serious concern. If, as KTRS claims, "KYSU has met its required contributions" then why does KTRS still show that I only received 47% credit for 2013. Kentucky State University has been blowing smoke for two years and nobody is taking any action to protect "my money." What is most disturbing is that Kentucky State University didn't even pay the 7.8% KTRS distribution that was deducted from my paycheck. I want answers to these questions.

Has anyone told KTRS that Kentucky State University "met its required contribution to the system"? If you don't know the answer to this question, than please send me the name(s) of someone who does.

(Four attachments received with this message follow)

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Matisoff, Attachment 1

Kentucky Teachers' Retirement System attempts to tackle pension woes

By Brad Bowman, Published: August 1, 2015 6:15PM

While financial and pension officials offered no magic solution for solving the funding challenges to the Kentucky Teachers' Retirement System funding workgroup Friday, they gave insight that a hybrid plan with a bond and a change in benefits outside the state's inviolable teacher contract could put the plan back at 100 percent funding in 30 years.

The KTRS workgroup had a lot of information thrown at it during the four-hour session Friday at the Capitol Annex, but certain assumptions were made going forward.

• If Kentucky doesn’t increase payments into the KTRS, the state won’t be able to pay its current level of benefits and would reach insolvency by 2036.

• If the state moves forward with a risky pension obligation bond, the bond shouldn’t be used as the sole component of the plan as it could hurt Kentucky’s credit rating, give little budget flexibility, but is the fastest and softest route into the annual required contribution.

New consultant

Chairman David Karem introduced William B. “Flick” Fornia of Pension Trustee Advisors as a consultant who has worked on both sides of state pension problems across the United States.

Fornia has worked previously with pension woes in other states that included teacher plans without Social Security benefits like Kentucky, Ohio, Colorado, Alaska, Missouri, California, Louisiana and Rhode Island.

While Fornia said every state’s system and situation is different, he quelled any concerns that merging any of the state’s pension systems would have any large positive effect.

Moreover, he didn’t see the plan’s returns or administrative costs as the problem, but the obvious — the plan is about $500 million below the ARC.

At first blush, Fornia said the KTRS financial requests and assumption amounts don’t look overstated and if the state shifted to a hybrid pension system for new hires that included Social Security it wouldn’t provide any solutions toward solvency.

“Your problems are fairly big,” Fornia said. “Merging the system, going into Social Security … isn’t enough. I think we are trying to find low-hanging fruit. I would contend there isn’t any low-hanging fruit.”

Rep. Derrick Graham, D-Frankfort, raised the concern that the state needed to ensure it retained teachers while Sen. Damon Thayer, R- Georgetown, clarified that no one in the workgroup wanted to cut any existing contracts.

Bonding

Ed Koebel of Cavanaugh Macdonald told the board that if the General Assembly would have passed House Bill 4’s bond proposal that $3.3 billion in fiscal year 2015-2016 would have phased the plan into the ARC over a seven-year period, but officials from Morgan Stanley advised that bonds do have a risk.

William Mack, Morgan Stanley’s banking coverage officer for Kentucky, and Dennis Farrell, the company’s head of municipal credit, told board members that a pension obligation bond (POB) doesn’t give the state much budget flexibility and if the bond is perceived as deficit borrowing it could impact the state’s credit.

The overall positive of a bond, Mack said, is it provides liquidity and would keep the fund from selling any high performing assets in order to pay out retiree benefits.

Future considerations

The workgroup will tentatively meet again Aug. 28 to consider comparisons with other similar state systems, consider benefit changes that have cost-cutting measures and consider changes that impact educators the least.

State falls short on saving for future
Only 43 percent contribute to work retirement plans, study shows

By Brad Bowman, Published: July 31, 2015 8:14AM

Fewer than half of Kentucky's 2012 workforce used a work retirement plan.

In the shadows of unfunded liabilities in both of the state's Kentucky Teachers' Retirement System and Kentucky Employees Retirement System non-hazardous pension funds, workers who have saved for retirement saved less than their average 2012 earnings.

According to the National Institute On Retirement Security's report issued Thursday, Kentucky has a six out of 10 score and measures well against many states, but still has room for improvement.

Based off of 2012 data, the state scored above average, but only 43 percent of Kentucky's workers participated in a work-sponsored retirement plan.

The workers who have saved for retirement have an average balance of $32,499 in a defined contribution account compared to the $48,500 annual average earnings of 2012 workers.

Comparatively, the state's workers are saving more than the national $30,345 average for retirement savings.

Factors
The NIRS put Kentucky in a better-than-average score with Nebraska, Alaska, Minnesota and North Dakota ranking the highest out of the nation because of stronger labor markets in those states and lower costs for retirees.

Kentucky's 2.24 percent tax on pension income and a low cost of living for retirees, the ninth lowest cost in the nation, because 27 percent of older households pay only 30 percent of their income toward housing costs helped with the state's score.

The state's 2012 older adult labor market was lower for older workers at 4.5 percent compared to the national 5.3 percent average.

Other states
California, Florida, and South Carolina ranked the lowest for retirement security with lower retiree wages; less access to workplace retirement plans and diminished potential for retiree income.

Regionally, West Virginia had a higher score than Kentucky with 52 percent of its private sector workforce participating in an employer retirement plan and low retiree housing costs.

Tennessee and Indiana had the same score as Kentucky with both Ohio and Illinois scoring a five.

State pension systems

While the state's non-hazardous pension fund faces a $9 billion shortfall with assets that could cover only 22 percent of its liabilities, Gov. Beshear's KTRS workgroup meets for the second time Friday to tackle its large challenges.

Since the General Assembly did not meet the actuarial required contribution (ARC), the state will have to put a $21.5 billion net pension liability on its books for FY 2015.

KTRS asked for an additional $386 million to the meet the ARC in FY 2014 and an additional $487 million to meet the ARC for FY 2016.

The workgroup will welcome a new consultant to help with solutions Friday, William B. "Flick" Fornia of Pension Trustee Advisors.

Matisoff, Attachment 3

Gov. Beshear's Kentucky Teachers' Retirement work group comes with criticism from House and Senate Republicans

Work group will report solutions and recommendations by December

By Brad Bowman, Published: June 19, 2015 8:01AM

Republican leaders in the House and Senate have responded to Gov. Beshear's teachers' retirement workgroup with criticisms for House Democrats and the governor.

Both Democrats and Republicans agree that the Kentucky Teachers' Retirement Systems requires attention, but neither side has agreed on how to fix it.

Beshear announced the formation of the 19-member work group Tuesday, which will also include an additional two members appointed by Senate President Robert Stivers, R-Manchester, and two members appointed by House Speaker Greg Stumbo, D-Prestonsburg.

KTRS announced at its quarterly meeting in June that its pension portfolio investments earned a 8.6 percent return placing it in the top 10 percent pension plans across the U.S., but that won't bring much comfort as the organization will sell almost $600 million in assets to make payroll this year.

Beshear announced David Karem, former state senator and chairman of the state board of education, will lead the work group and provide solutions for the plan's $14 billion unfunded liability and 53.6 percent funding level.

Hoover protests

Minority Floor Leader Jeff Hoover, R-Jamestown, criticized Beshear Tuesday in a statement that posted to the Kentucky House Republicans' Facebook page.

Hoover had sent a letter previously to the governor requesting a solution be found for KTRS prior to the announcement.

Hoover had hoped for an outside review and said, “I am extremely disappointed that Gov. Beshear has chosen this response,” and that Beshear “chose to fill this task force with self-serving special interest groups that have been part of the problem, not part of the solution.”

The panel members include the CEO of the Kentucky Chamber of Commerce, the executive director of the Kentucky School Boards Association, the executive secretary of the Kentucky Teachers’ Retirement System and other members from agencies ranging from the Finance and Administration Cabinet to the State Budget director.

Senate President Robert Stivers sent out a release Wednesday thanking Beshear for forming the work group and that it has always “been the Senate’s position that we will fix the KTRS pension problem,” and that House Democrats’ “solution of pension bonds is not the answer.”

After several committee meetings in the past legislative session, Stivers said “we brought in a representative from the Governor’s Budget Office who said it would be difficult,” to sell a $3.3 billion bond proposed in House Bill 4 in one year and it was “risky to sell even $1 billion in bonds. At that moment we knew,” the bill was “no more than a political move by House Democrats.”

Beshear requested the group submit its report and recommendations to him by Dec. 1 of this year.

The KTRS manages services for 45,000 retired members and 75,000 active members.

Matisoff, Attachment 4

Kentucky Teachers’ Retirement System one of top performing pension plans in the country

By Brad Bowman, Published: June 9, 2015 9:16AM

The Kentucky Teachers’ Retirement System could argue it wasn’t a high priority for some legislators during the 2015 legislative session when it came to funding solutions, but it can now celebrate having one of the highest performing pension plans in the nation.

The words “good news” and “state pensions” usually don’t belong in the same sentence, but KTRS announced at its quarterly meeting in June that its pension portfolio investments earned a 8.6 percent return placing it in the top 10 percent pension plans across the U.S.

With more than $1 billion in assets, the investment portfolio has performed in the top 8 percent for three years and in the top 13 percent for the last five.

Sen. Jimmy Higdon, R-Lebanon, requested last week at a Legislative Research Commission meeting that legislators make the under-funded plan a priority for the 2016 session.

After a bill passed the House for a $3.3 billion bond proposal, the bill stalled in a free committee between House and Senate members with a late night offering of $50 million and a study to be done of the pension plan.

Sell assets
Beau Barnes, KTRS deputy executive secretary of operations and general counsel, said KTRS will sell almost $600 million in assets to make payroll this year and the $3.3 billion bond would still be a ballpark amount of cash to infuse in the system.

"Coming out of a 13-year flat investment bubble contributed to the situation," Barnes said. "We can't invest our way out of it. We were 53.6 percent funded June 30, 2014 and we have half the assets we need to pay for all the benefits. Those investments historically are paid with investment income."

Barnes said having the $3.3 billion infusion would give the pension plan the liquidity or cash it needs if markets did take another downturn.

"If even there were anomalies in the market they historically always return to mean," Barnes said. "Without the cash flow we would be exposed. It's one thing to be selling assets this year, but when you are selling assets when prices are going down you can't recover from that."

Having a negative cash flow is affecting the plan's long-term investment strategy, Barnes said, as they can't make long-term investments that KTRS otherwise would.

Proud of performance
KTRS Executive Secretary Gary Harbin said he is proud of the portfolio's investment performance.

"The board of trustees and staff take great pride in working for teachers. That translates into KTRS having some of the best investment performance at some of the lowest costs in the country," Harbin said.

"The teachers' fund performance was strong in terms of total return and performing better than its market benchmark."

The KTRS manages pension and health insurance benefits for more than 140,000 active and retired teachers and beneficiaries with about $2 billion in benefit payments to retirees annually.

<u>MESSAGE 2</u>

To: KTRS Funding Work Group
From: Luann Johnson, Louisville, KY
Date: August 23, 2015
Subject: Options for increased KTRS contributions

I find it interesting that the broad options for increasing contributions are directed at teachers, when the teachers were not the ones responsible for the decrease in and lack of funding. The Funding Work Group must look at other options that do not penalize teachers because the state they trusted did not live up to their commitment.

MESSAGE 3

To: KTRS Funding Work Group
From: Randy Davis
Date: August 25, 2015
Subject: KTRS Funding

One issue with the current KTRS Pension is that the majority of those who receive benefits (current and future) never pay any Kentucky Income tax on their initial contributions that go into the plan nor do they pay Kentucky Income tax on the benefits they receive from the plan (exception for those exceeding $41K). Assuming someone defers an average of $5,000 in KTRS Contributions each year for 27 years for a total of $135,000, plus never pays tax on any KTRS Benefit payments (over a retirement period averaging of 30 years with an average annual benefit of $35,000) of approximately $1,050,000, you can see why KTRS and the State of Kentucky are both broke.

In order for KTRS to be fully funded, the State needs to make changes to its current tax laws which currently provide a KTRS beneficiary approximately $1M tax (state) free income. Additionally, the State of Kentucky is funding services for those individuals and never receive any state income taxes from them. The State has to either tax the initial contributions to the plan or tax the benefits paid from the plan. Nothing else is going to work long-term.